# Changes to IPERS

Effective

June 30, 2012

# What are the changes?

- Rate that benefits accrue will be slowed.
- Penalty for early retirement will increase.
- Time required to vest will increase
- Formula for calculating pension is modified
- Employee and employer contributions will increase.
- Rate at which contributions are allowed to increase will change.

# Changes in Vesting

July 1, 2012

- To Vest, employee needs to be employed for seven years.
- Prior to July 1, 2012 employee is vested at four years employment.
- If not vested by July 1, 2012 employee will vest following new rule.

# Change in Retirement Benefit

- Instead of using High 3, system will calculate benefit based upon High 5 years.
- There is a Transition rule for vested employees as of June 30, 2012.
- If wages increase more than 3% in the employee’s last year, benefits are calculated using only a 3% increase for the final year.

# Basic Example

Old Rule:

- Last year of work  $41,000 --- prior year $40,000 --- prior year $39,000 --- prior year $38,000 ---- prior year $37,000

- Using high three, average final wage upon which retirement based is $40,000

# How does this work?

New Rule:

- Last year of work  $41,000 --- prior year $40,000 --- prior year $39,000 --- prior year $38,000 ---- prior year $37,000

- Using high five, average final wage upon which retirement based $ 39,000.

# Difference in Pension Benefit

- Difference in pension in the preceding example would be $600 per year; or $50 per month.
  - 60% of $40,000 = $24,000
  - 60% of $39,000 = $23,400

# Transition Rule

- If you are vested on July 1, 2012 the benefit earned as of this date is guaranteed. However the accrual rate of benefits beyond this date will be slower.
- If vested on July 1, 2012, you get the **greater** of the new formula or the high three that existed on June 30, 2012.

# Comparison of benefit pre and post 7-1-2012

Example: Employee is vested 7-1-12 and retires in 2014

year 1 -- $20,000; year 2--- $25,000;

year 3 ---$30,000 (July 1, 2012); year 4 ---$35,000

year 5---$40,000 (since this is more than a 3%
increase, $36,050 is used for
final year wage.

3 year average (benefit accrued 6/30/2012) $25,000

5 year average (benefit when retired) $29,210

Employee gets the greater which is $29,210

Note: in absence of law change employee would have received $35,000

# Retirement and Service

- If you have 30 years of service your pension benefit is based on 60% of your average final wage.
- If you have less than 30, your pension is based on the number of years service that you have attained divided by 30 (i.e. 60% of average final wage multiplied by 25/30 for 25 years service.

# Service beyond 30 years

For each calendar quarter beyond 30 years service pension increase ¼ of 1% to a maximum 65% with 35 years service.

# Normal Retirement

- Normal Retirement age:
  - Age 65 (must still vest)
  - Age 62 with 20 years of service
  - Any combination of years of service and age which when totaled equal 88 (Rule of 88)

  - These factors are not changed under the new law

# Early Retirement penalty

Old law:

- Penalty for early retirement age 55 and vested
  - ¼ of 1% of each month short of “normal retirement date”
  - Equals 3% per year for each year of early retirement
  - “Normal retirement” includes 65; 62/20; Rule of 88

# Early Retirement penalty

<u>New Law</u>

- Penalty for early retirement age 55 and vested
  - <u>½</u> of 1% for *each month short of* **<u>age 65</u>**
  - This is a 6% reduction per year (instead of 3%) and the years of early retirement is always calculated from age 65 (not from rule of 88 or 62 with 20 rule).

# Early Retirement penalty

<u>Example under old law</u>:

- Employee is age 57 with 25 years of service
- Retirement age would be 60 (for rule of 88)
- 3 years short    (3 years at 3% equals 9% reduction in pension for early retirement)

# Early Retirement penalty

<u>Example under new law</u>

- Employee age 57 with 25 years of service
- Retirement age would be 65
- 8 years short (8 years at 6% equals 48% reduction in pension for early retirement)
- This employee should consider working until age 60 to get the rule of 88 and avoid the reduction!

# Hybrid calculation for employees vested 6-3-12 who retire early

- The law provides a special calculation for employees who are vested as of June 30, 2012

- The years short of normal retirement is split into the pre 2012 rate and the post 2012 rate of reduction, and the combination applied.

# How much do we pay for IPERS?

- It is a 60%/40% split. Employers pay the 60%

  Rate for July 1, 2009 to June 30 2010

  – 6.65%/ 4.3%  Total 10.95%

  Rate for July 1, 2010 to June 30, 2011

  -6.95% / 4.5%  Total 11.45%

  Rate for July 1, 2011 to June 30, 2012

  -8.07% / 5.38%  Total 13.45%

# Future IPERS Increases

- Starting July 1, 2012, IPERS has the authority to raise rates up to 1% per year (Total)
- For Employees this could be .4 % per year, with employer paying other .6 %

# Should I Retire before the law changes?

- Retire when you think you should. The law changes reduce the accrual of new benefits and increases the penalty for early retirement on benefits earned after July 1, 2012.
- It does NOT affect benefits earned before that date.

# Questions?

- Contact IPERS– ask for personalized retirement report – they are free!
- IPERS.ORG
- Retirement calculator on line at the site with link to social security calculator